STATE OF WASHINGTON

OFFICE OF COMMUNITY DEVELOPMENT

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TO: Housing Finance Unit Contractors

FROM: Stanley K. Jackson, Manager
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SUBJECT: CALENDAR YEAR 2002 ANNUAL REPORT

NOTE: Home ownership programs are not required to submit an annual report to the Housing Finance Unit.

The Office of Community Development (OCD), in cooperation with the City of Seattle Office of Housing, the Washington State Housing Finance Commission, King County Department of Community and Human Services, and the Snohomish County Office of Housing and Community Development has revised the Annual Report that your agency is required to submit to the Housing Division's Housing Finance Unit. The report forms and the instructions are located at. http://housing.ocd.wa.gov. If you find that the instructions are not clear and you need assistance, please use the "Email Help" at the bottom of the page.

The annual report is due to the OCD Housing Division not later than **June 30, 2003** for the reporting period of January through December 2002. The report form is used to report to our cooperating agencies, but their required submission dates may differ. This year we are requesting that you e-mail your completed report to **2002AR@cted.wa.gov**, but you must use regular mail to submit any documents that must be enclosed with the report. If you are unable to e-mail your report, we request that you send us a disk containing the report. **Please send a hard copy only if you are unable to submit electronically or by disk.**

If a project was completed during calendar year 2002, report all available information with the annual report, no matter how late in the year the project opened. We do want all data from the first date of occupancy.

We hope that our work these last couple of years to create a combined funders report has helped to reduce the impact annual reports have had on your staff. We continue to be committed to maintaining minimal (if any) revisions to forms and instructions so that the internal systems you set up in your organization to feed into annual reports will not require a lot of changes from year to year.

Practical Tips

Annual reports can be a formidable task for your staff. We would like to share some practical tips to help you accurately complete and efficiently submit your annual reports this year. Please copy and share this information with both your on-site, property management and compliance staff.

Annual reports are not just a painful exercise that your funders make you do and then never look at. The current annual report form is crafted to inform you as well as us in how your buildings are performing and whether or not you are in compliance with your loan and regulatory agreements. We share a common interest in ensuring that our low-income housing goals are being achieved and that our investments are operating well both financially and physically (meaning building conditions).

The annual report asks for information regarding property management performance that includes income and expenses, status of debt and status of reserve accounts. It also asks for status of occupancy rates and collection rates. More than a few property owners had trouble reporting occupancy and collection rates last year. Because we feel these calculations are so basic to assessing the performance of your rental property we want to share the following tips.

<u>Occupancy and Collection Rates</u>

It is important to first measure and then establish performance goals for your staff. You do not need fancy computer software to do this. On-site staff who collect rents can do a simple calculation monthly (see attached) and report results to you with their month end rent collection report. Train and engage your staff at all levels in understanding the importance of knowing how your building is performing, what are the occupancy and collection goals you've established for their building and then celebrate when goals are achieved. Typical affordable housing industry standards generally state that occupancy rates should be above 95% and collection rates above 97% or 98%. Consider these industry standards as you set goals for each of your own properties.

<u>Read your Loan and Regulatory Agreements</u>

Be sure the staff who operate and report on your buildings understand the "bones" of your loan and regulatory agreements. Condense the sometimes complicated agreements into simple factual bullet points that staff can easily follow and report to. If you need help with this, contact the staff of the Housing Division's Compliance and Asset Management Unit at (360) 725-2908.

<u>Income, Expenses and Reserves</u>

Report all income, expenses, debt service and reserve levels accurately. They must reflect your internal financial statements, audits and reserve bank account statements. If your building is experiencing negative cash flow, explain why and what corrective action you are taking. Remember that accurate reporting can be a way to reduce other monitoring questions and site visits.

Attachments (2)

Occupancy Rate

Calculate Occupancy Rate by dividing occupied days by total days:

First calculate:
# of days in the period x # of units = Total # of Possible Days

Then:

<u>Total # of Possible Days minus Total Vacant Days (All Units)</u>
Total # of Possible Days

<u>Monthly Example:</u>
A building with 10 units has 300 possible days (10 x 30-day month).
1 unit was vacant for 7 days, 1 unit was vacant for 10 days in that month.
300 possible days - 17 vacant days = 283 occupied days
divided by 300 Total possible days = an occupancy rate of 94%.

<u>Annual Example:</u>
A building with 10 units has 3,650 possible days (10 x 365 days a year).
4 units were vacant for 9 days each for a total of 36 days (4 x 9).
3,650 possible days - 36 vacant days = 3,614 occupied days
divided by 3,650 Total possible days = an occupancy rate of 99%.

<u>A good performance goal is to keep occupancy rates above 95%.</u>

Collection Rate

Calculate Collection Rate by taking the Total Actual Rent collected during the period minus the amount collected on arrears during the same period and then dividing by the Gross Potential Rent minus the Vacancy Loss.

Total Rent Collected - Amount of Arrears Collected
Gross Potential Rent (GPR) - Vacancy Loss

Example for monthly calculation:
A building has 10 units with rents set at $500 a unit.
If the total rent collected for the month was $4,050 and the amount collected on arrears was $50, the numerator would be $4,000 ($4,050-$50).
The Gross Potential Rent (GPR) is $5,000 (10 units x $500) minus $500 Vacancy Loss (assumes 1 unit x $500) which makes the denominator $4,500. $4,000 divided by $4,500 = an 88.8% Collection Rate.

Example for annual calculation:
A building has 10 units with rents set at $500 a unit.
If the total rent collected for the year was $58,000 and the amount collected on arrears was $1,000, the numerator would be $57,000 ($58,000-$1,000).
The Gross Potential Rent (GPR) is $60,000 (10 units x $500 x 12 months) minus $2,000 Vacancy Loss (assuming 4 units x $500 x 1 month each) which makes the denominator $58,000.
$57,000 divided by $58,000 = a 98.3% Collection Rate.

A good performance goal is to keep collection rates above 97%.